

ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

INSIDE THIS ISSUE:

**SUMMARY OF
GENERAL FUND REVENUES**

**OCTOBER 2002
TAX CALENDAR**

**ALTERNATIVE FUEL
VEHICLE REPORT
FOR AUGUST, 2002**

**LEGISLATIVE SUMMARY
2002**

**GENERAL TAX RULLING
GTR 02-1**

**UNCLAIMED PROPERTY
NEWS**

E-Mail Your Questions

We will gladly respond to any e-mail technical tax inquiry. E-mail your question to:

TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

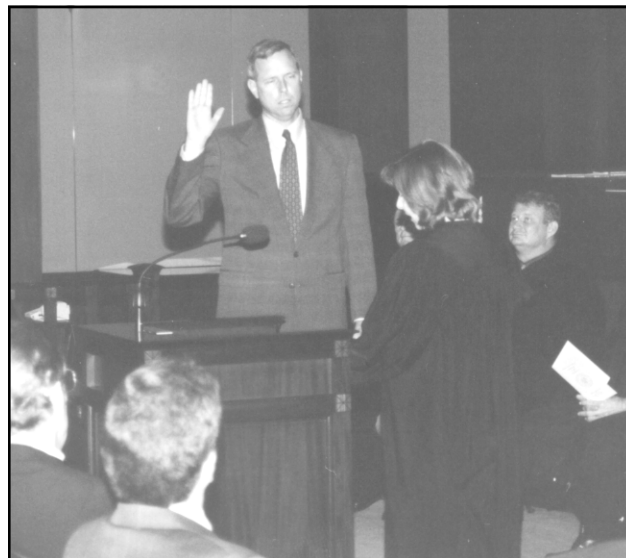
PATRICK IRVINE APPOINTED TO COURT OF APPEALS

Many will remember Patrick Irvine as Chief Counsel of the Tax Section at the Attorney General's Office. Pat represented DOR on numerous occasions from 1989 to 1999. Pat was also the attorney who argued on DOR's behalf at the United States Supreme Court in Washington D.C. in the Blaze Construction case.

Prior to his appointment Pat served as Solicitor General in the Arizona Attorney General's Office.

As Solicitor General, he supervised civil and criminal appeals, formal Attorney General opinions and election law. He also is co-chair of the Open Meeting Law Enforcement Team and Indian Law Working Group.

Pat earned a B.S. in political science from Arizona State University, a J.D. also from Arizona State



On August 26, **Patrick Irvine** was sworn in as a judge on the Arizona Court of Appeals

University and a Master of Laws in taxation from the University of San Diego. He has been an instructor at Phoenix College since 1992.

Pat has written numerous legal articles, including chapter supplements in American Indian Law Deskbook and he lectures frequently on tax issues.

B.R.I.T.S. FOR OCTOBER

Last month, the Department announced that Accenture was awarded the contract to reengineer the entire agency in order to provide world-class service. Accenture

officially arrived at DOR on September 3 and has been meeting with Department employees. The Accenture Project Manager is

(Continued on page 5)

*** **REMINDER** ***

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your September 2002 TPT return no later than October 25, 2002 or deliver to DOR no later than October 30, 2002.

JULY SUMMARY OF GENERAL FUND REVENUES

	<u>July 2002</u>	<u>Fiscal Year Total</u>
Individual Income Tax		
Net Collections	\$135,959,445	\$135,959,445
Percent Change *	(6.7%)	(6.7%)
Corporate Income Tax		
Net Collections	\$16,230,746	\$16,230,746
Percent Change *	(31.7%)	(31.7%)
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$257,896,009	\$257,896,009
Percent Change *	(0.6%)	(0.6%)
Total Big Three Tax Types		
Net Collections	\$410,086,200	\$410,086,200
Percent Change *	(1.8%)	(1.8%)

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax *Individual Income Tax Receipts*

	<u>July 2002</u>	<u>July 2001</u>	<u>%</u>
Gross Collections	\$9,784,426	\$9,734,259	(0.5)
Withholding	186,097,356	188,982,846	(1.5)
Refunds	(24,042,416)	(17,800,590)	35.1
Urban Rev Sharing (35,879,921)	(35,879,921)	(35,156,381)	2.1
Net Collections	\$135,959,445	\$145,760,135	(6.7)
Fiscal Year Total (01/02)	(00/01)	%	
Gross Collections	\$9,784,426	\$9,734,259	0.5
Withholding	186,097,356	188,982,846	(1.5)
Refunds	(24,042,416)	(17,800,590)	35.1
Urban Rev Sharing (35,879,921)	(35,879,921)	(35,156,381)	2.1
Net Collections	\$135,959,445	\$145,760,135	(6.7)

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. After offsetting \$144,929 in tax liability, refunds for this credit totaled \$778,707. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit.

TAX CALENDAR

OCTOBER 2002

Due Date		For Period Ending
14	Columbus Day (observed)	All State Offices Closed
15	Income Tax Returns:	6/30/02
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	12/31/01
15	Form 120S: S Corporation	7/31/02
15	Exempt Organizations	5/31/02
	Form 99: Annual Information Return	
	Form 99T: Unrelated Business Income	
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	6/30/03
	Second Installment	4/30/03
	Third Installment	1/31/03
	Fourth Installment	10/31/02
21	Form TPT-1: Transaction Privilege Tax: September Monthly Filers and Quarterly Filers	9/30/02
21	Bingo: Financial Reports	9/30/02
21	Luxury Tax: Various Forms	9/30/02
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax: September Monthly Filers	9/30/02
	Withholding Tax: Form A1-QRT	9/30/02

Withholding Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from:
Diane Sosinski or Tony Manzo at (602) 542-4672.

ALTERNATIVE FUEL VEHICLE REPORT FOR AUGUST, 2002

For the period of August 1 through August 31, 2002, the department received 43 individual income tax returns with claims for alternative fuel related credits totaling \$0.5 million. A total of 5,561 individual income tax returns with claims have been received from January 2001 through August 2002, totaling \$102.7 million in credit. The department also received 3 corporate income tax returns in August with claims for alternative fuel related credits totaling \$0.1 million. A total of 193 corporate income tax returns with claims have been received from January 2001 through August 2002, totaling \$18.2 million in credit.

- The dollar amount of verified credits claimed in the preceding calendar month not used to offset income taxes under title 43, Arizona Revised Statutes.

For the period August 1 through August 31, 2002, the department issued 28 individual income tax refunds for alternative fuel related credits. There was \$516,756 in AFV credits on these returns. After offsetting \$141,925 in liability, \$374,831 was refunded. The department issued no corporate refunds for alternative fuel related credits in August.

The total for this refundable credit since the inception of the program (both corporate and individual) is \$14,522,665 in liability offset and \$100,799,683 in refunds sent out, for a total cost of \$115,322,348. (Liability offset means that the credit is first used to reduce any tax liability on the tax return to \$0.)

Combining the corporate and individual income tax return amounts results in \$374,831 that should be transferred from the Budget Stabilization Fund into the General Fund for August 2002. In fiscal year 01, \$66,360,441 was paid from the Budget

Stabilization Fund into the General Fund; for fiscal year 02, \$33,277,654 was paid from the Budget Stabilization Fund into the General Fund. In this fiscal year, \$1,161,588 is the total to be paid from the Budget Stabilization Fund, putting the overall total coming from the Budget Stabilization Fund for alternative fuel vehicle credits at \$100,799,683.

- The cumulative dollar amount of the credits claimed in all taxable years, beginning from and after December 31, 2000.

The cumulative dollar amount of credits (individual and corporate) claimed is \$120.8 million.

- Any estimated amounts remaining to be claimed as credits in each fiscal year.

Through August 2002, 5,754 (corporate and individual) claims have been received. Those claims reviewed include 5,541 claims for 6,157 vehicles, claims for 30 refueling stations and claims for 700 refueling apparatuses. (Claims that have not yet been reviewed are not included in this count.) While most returns for 2000 filers have been received, there may be additional claims made through late filers and amended returns. Also, there are taxpayers who are first qualifying for a credit on their 2001 tax returns. At this time, the department has no independent means of estimating the amount yet to be claimed.

If you should have any questions, please contact Anthony Forschino at (602) 542-4672.

Very truly yours,
Mark W. Killian
Director

LEGISLATIVE SUMMARY 2002

The 2002 Legislative Summary provides a brief summary of the tax-related bills that were enacted by the Arizona State Legislature and were approved by the Governor.

Over the next few months the TaxNews will feature Legislative Summaries by tax type.

The general effective date is August 22, 2002

HB 2177 (NOW: tourism and sports authority; revisions) - Chapter 288

HB 2177 requires the Tourism and Sports Authority (TSA) to select a site host for the multipurpose facility by September 12, 2002. If the TSA fails to select a site host by this date the TSA must seek voter approval for the continuation of the TSA at the next countywide general election held in the county. The bill also expands the entities allowed to provide the land, infrastructure and parking facilities associated with the multipurpose facility and provides additional monitoring of the TSA's financial activities.

If the electors vote to terminate the TSA and its functions, the necessary statutory changes are contained in the bill in sections 20 through 59. These sections would become effective from and after December 31, 2002. Among the changes would be the repeal of the duty of the department regarding the accounting of revenue collected in connection with a multipurpose facility. These include facility-related transaction privilege taxes in the retail, amusement, restaurant and prime contracting classifications.

The bill contains an emergency clause.

HB 2313 (jail facilities excise tax; extension) - Chapter 266

HB 2313 authorizes the Maricopa County Board of Supervisors, upon resolution and voter approval, to extend a Jail Facilities Excise Tax (JFET) for a period not to exceed twenty years.

In 1998, the Legislature authorized Maricopa County to levy a JFET tax at a rate of no more than four percent of the transaction privilege tax, subject to the approval of the voters. The duration of

the tax was limited to nine years or until \$900 million is collected, whichever occurs first (Laws 1998, Chapter 225). Maricopa County voters approved a 1/5 of a cent JFET construction and operation of new Maricopa County medium and maximum security jail facilities and juvenile detention facilities. The current tax will expire in 2007.

Statute authorizes the county JFET monies to be used to finance and construct new adult and juvenile jail facilities, maintain and operate adult and juvenile jail facilities and fund specified programs to reduce the expense of adult and juvenile jail facilities. HB 2313 authorizes Maricopa County to request voter approval to extend the JFET and reauthorizes the current uses of the tax as well as including the renovation of adult and juvenile jail facilities and implementation of other programs designed to reduce the expense of adult and juvenile jail facilities.

The statute providing for the JFET as added by the bill is repealed on January 1, 2009 if no tax has been levied as of that date.

The bill is effective on the general effective date.

HCR 2047 (tobacco products tax; health services.) – Secretary of State

HCR 2047 will appear as a proposition on the November 2002 general election ballot. If approved by the voters through referendum, the statutory changes made would impose a tax increase of one and one-half times the tax rate on tobacco products on January 1, 2002. The increase would result in an additional tax of sixty cents per pack of cigarettes. Proceeds from the increased tax would be deposited in the Tobacco Products Tax Fund and distributed to the following accounts in the specified amounts:

(Continued on page 5)

Legislative Summary 2002 (Continued from page 4)

- 42% in the Proposition 204 Protection Account.
- 5% in the Health Research Fund.
- 27% in the Medically Needy Account.
- 20% in the Emergency Health Services Account.
- 4% in the Health Care Adjustment Account.
- 2% in the Health Education Account.

The Department of Revenue administers the Health Care Adjustment Account, as well as the collection of the tobacco taxes.

The resolution will become effective if approved by the voters at the November 2002 general election and on proclamation of the Governor.

SB 1043 (taxation; estates and trusts) - Chapter 130

SB 1043 conforms Arizona estate and trust

tax statutes to the Internal Revenue Code (IRC). Currently, Arizona statutes regulating income tax of trust, estates, and beneficiaries of trusts differ from current IRC. Arizona's statute dealing with estate and trust income tax is primarily based on the 1939 IRC. The Revenue Act of 1954 and several other subsequent changes to IRC have created many differences between the federal and state treatment of estate and trust income tax. Provisions for determination of income distribution and distribution deductions, estate and trust income tax exemptions, and distribution of unused carryovers are currently not conformed to federal law.

SB 1043 makes changes to state law to conform to current federal law and current practice.

(Continued from page 1)

John Zimmerman who has extensive experience as a consultant to Federal, State, and Local governments throughout the United States and Puerto Rico. John, with Lynette States from DOR, will oversee the progress of the 4-year implementation of BRITS. Lynette is a CPA and CGFM who came to DOR from the Auditor General's office in 1994. She has served as the Assistant Director for Administrative Services, project leader for BRITS Discovery Phase and is the Change Management Executive for DOR.

The cost of BRITS, approximately \$130 million, is paid from the revenue stream increases that flow naturally from the improvements provided in business reengineering and the integrated tax system. Revenue increases are expected to be in excess of \$400 million over 10 years. This benefits-funded mechanism strengthens the relationship between DOR

and our business partner, Accenture. More importantly, it is a fiscally responsible way to make needed improvements during a time of tight budgets and uncertain general fund revenues.

The major benefit to reengineering is a drastic improvement in customer service. One significant change will be that all documents that come into the Department, including POA's will be imaged and available to appropriate staff. Because of this, practitioner questions regarding returns or billing statements can be resolved quickly and accurately with one call. In addition, the entire taxpayer account, including individual and business information, will be available to customer service staff to facilitate change of address or other account maintenance that needs to be done.

ARIZONA GENERAL TAX RULING GTR 02-1

Issue:

What is a controlled subsidiary for purposes of Arizona Revised Statutes § 42-2003?

Applicable Law:

Chapter 163, of the Laws of 2001, amended Arizona Revised Statutes (A.R.S.) § 42-2003.

A.R.S. § 42-2003(A)(1) states:

Confidential information relating to:

A taxpayer may be disclosed to the taxpayer, its successor in interest or a designee of the taxpayer who is authorized in writing by the taxpayer. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary.

Discussion:

Under the former law, a principal officer of a parent corporation was not permitted to sign a power of attorney on behalf of all subsidiaries unless that officer was also a principal officer of all the subsidiaries.

Under the amended statute, however, a principal officer of a parent corporation may execute a written authorization for a controlled subsidiary designating a person to receive confidential information relating to the controlled subsidiary. A.R.S. § 42-2003(A)(1).

This ruling defines what constitutes a controlled subsidiary for purposes of allowing another corporation to execute an authorization to disclose a controlled subsidiary's confidential information to a person who is not a principle officer of the controlled corporation.

Ruling:

A controlled subsidiary for purposes of A.R.S. § 42-2003 is defined as more than fifty-percent ownership.

Mark W. Killian,
Director

Signed: September 5, 2002

ATTENTION UNCLAIMED PROPERTY HOLDERS

We would like to reduce our future mailing costs by reducing the number of State of Arizona Unclaimed Property Report booklets we send each year. We understand that many large businesses do not use the returns we send. If you are one of those businesses, please consider being removed from the mailing list.

General Booklet 601 information and instructions for filing your report can be found on the link found on the Arizona Department of Revenue web site at www.revenue.state.az.us. Holder Reporting System (HRS) software can be downloaded from www.wagers.net.

If you have nothing to report please complete the attached form and mail to:

Arizona Department of Revenue,
Unclaimed Property
PO Box 29026
Phoenix, AZ 85038-9026

To contact the Unclaimed Property Unit with reporting questions and requests for extensions call or fax:

Voice: (602)364-3089
Fax: (602)542-4667

DOR AND IRS PRESENT FEDERAL/STATE *E-FILE* SEMINAR - BECOMING AN *E-FILE* PROVIDER

Those interested in becoming an authorized Federal/State *e-file* Provider including Individuals, Accountants, Certified Public Accountants, Attorneys, Bookkeepers, Enrolled Agents, Tax Preparation Business Owners and Financial Service Businesses should attend.

Why Should I Attend?

Because you want to offer your clients the most accurate, error free, convenient service possible.

The DOR and IRS representatives will feature:

- Why you should provide *e-file*
- Benefits of Federal/State *e-file*
- Software Selections
- Valuable marketing data
- Direct V, Indirect Method of *e-file*
- How to file both returns in one click
- What is an ERO

When you attend?

You will learn what it takes to become an *e-file* Provider, complete the acceptance application and get fingerprinting done on-site for FREE (only for those who are required to submit fingerprints with their applications). CPE credits are offered for all seminar attendees.

Seminar Topics:

- Becoming an *e-file* Provider
- ERO, Learn what this can mean to you
- Benefits of *e-file*
- Marketing
- Software Selection
- Direct vs. Indirect Transmissions

Glendale

Oct. 16 Time: 10:00 AM—4:00PM
Glendale Public Library
5959 W Brown St

Tucson

Oct. 22 Time: 10:00 AM—4:00PM
Tucson Main Library
101 N Stone Ave

Chandler

Oct 31 Time: 10:00 AM—4:00PM
Chandler Public Library
22 S Delaware St

Name: _____

Company/DBA: _____

Address: _____

City, St, Zip: _____

Phone Number: _____

Email Address: _____

Mail: Donna Muccilli
Arizona Department of Revenue
e-Commerce Marketing
1600 W Monroe, 1st Floor
Phoenix, AZ 85007

Phone: 602-542-2076 x 4118

Email: muccillid@revenue.state.az.us



Arizona Tax Talk 2002

Arizona Department of Revenue, sponsored by AFIT, will be presenting Arizona Tax Talk 2002 in Tempe, Tucson, and Glendale. The two-day seminar will include individual income tax and business tax. Cost of the program is \$125. Dates and locations include:

December 3 & 4, 2002 - Sheraton Phoenix Airport Hotel Tempe

1600 S 52nd St

December 10 & 11, 2002 - Tucson Convention Center

260 S Church Ave

December 17 & 18, 2002 - Glendale Civic Center

5750 W Glenn Dr.



DOR & IRS personnel will make presentations on a variety of topics. Tentative topics include e-Government, Tax Updates, Construction Industry, Offers in Compromise, Community Property, Burden Reduction, Third Party Authorization, Alternative Agreements, and much more.

Additional information will be made available on the department's Internet website, www.revenue.state.az.us/seminar.htm. For more information, please call Community OutReach and Education at 602-542-3062 (or outside Maricopa County 1-877-863-0655) or email at seminars@revenue.state.az.us